US Department of Commerce, Office of Health and Consumer Goods
2005 U.S. Wine Industry Outlook

INDUSTRY SUMMARY

According to the U.S. Department of Commerce 2003 Annual Survey of Manufacturers (2003 ASM), the value of industry shipments of the U.S. wine and brandy industry (NAICS 31213) reached an estimated $9.1 billion.[1] This industry employed 23,284 individuals, with a total payroll of $1,045.4 million. Between 1997 and 2003, while employment grew 28 percent, industry shipments grew 52 percent. It is estimated that in 2005, these industry shipments rose to about $10 billion. The remainder of this report will be analyzing a subsector of this industry--sparkling and non-sparkling wines (table wines) made from grapes, unless otherwise noted.

U.S. GRAPE HARVEST/PRODUCTION

In 2004, while total U.S. grape bearing area fell almost 2 percent in 2004 to 933,200 acres (377,661 hectares) and total grape production fell 8 percent to 5.972 million short tons, [2] wine grape production, which accounts for about 60 percent of total grape production, was flat at 3.581 million short tons.

According U.S. Treasury's Alcohol and Tobacco Tax and Trade Division (TTB)[3], in 2004, there were 3,726 wineries that produced a total of 2.3 billion liters of wine. At 2.04 billion liters, California accounted for 89 percent, followed by New York with 5 percent (114.3 million liters), Washington with 2.9 percent (66.25 million liters), Oregon with 0.4 percent (10 million liters), New Jersey with 0.25 percent (5.8 million liters), and Virginia with 0.13 percent (2.86 million liters).

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[1] *2003 is the latest Annual Survey of Manufactures available.*

Definition of NAICS 31213: http://www.census.gov/epcd/naics02/def/NDEF312.HTM#N31213

[2] *1.102 short tons = 1 metric ton.*

[3] *TTB figures also include facilities that could produce non-grape wines, cider and other fermented beverages.*

Percentage of Wineries and Wine Production by Geographic Region-2004

Region	Wineries	Production
Northeast	11.8	5.8
Southeast	7.9	0.8
Great Lakes	9.0	0.06
Midwest	6.8	0.05
Rocky Mountains	3.4	0.02
California	45.3	89.3
Northwest	15.8	3.6
Total	100.0	99.63[4]

Source: Based on U.S. Treasury's Alcohol and Tobacco Tax and Trade Division Data

U.S. WINE MARKET

According to the Wine Institute's April 5, 2005 news release, total shipments to the United States in 2004 from all production sources-California, other states and foreign countries-increased 4 percent over the previous year to 668 million gallons (2.53 billion liters). About two out of three bottles sold were from California, as the state's wineries accounted for a 64 percent share of the U.S. market. Foreign wines now account for 25 percent of U.S. wine consumption and other states 11 percent.[5]

According to supermarket data from ACNielsen, more consumers are drinking red wines than white or blush. Reds now account for about 41 percent of wines sold at retail, whites, 40 percent and blush, 19 percent. This change is more dramatic when comparing figures from 10 years ago, where reds only accounted for 25 percent, compared to whites with 41 percent, and blush with 34 percent.

Of the U.S. total, the table wine category represents 2.34 billion liters (591 million gallons); dessert wine was 177.91 million liters (47 million gallons); and sparkling wine accounted for 113.56 million liters (30 million gallons). The Wine Institute estimate that the retail value of all wine sold in the United States has increased 4.5 7 percent to $23.2 billion in 2004.

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[4]*Data doesn't total to 100 percent due to incomplete state data*

[5]*Estimates by Gomberg, Fredrikson & Associates*

The following individual state highlights are based on reports received from either official state agencies and/or wine associations in those particular states.

California, the largest wine producing state in the United States, accounted for about 90 percent of total U.S. wine grape production. In 2004, there were more than 1,689 wineries.

According to USDA, California grape production, which accounts for 90 percent of the U.S. grape production, fell 7.1 percent from last year to 5.4 million tons. All grape categories fell: wine, 7 percent; raisin, 9 percent; and table, 0.3 percent **.** Of total grapes crushed, it is estimated 20 percent will be marketed as grape concentrate.

According to California Agricultural Statistics Service, California grape growers received prices in 2004 for raisins; table, white and red grapes were, on average, greater than in 2003. The average price per ton for all varieties was up 2.3 percent to $482.26.

- – Red wine grapes at $626.69 per ton, up 3 percent
- –White wine grapes at $487.47per ton, up 13 percent
- – Raisin grapes at $199.86 per ton, up 110 percent
- – Table grapes at $198.52 per ton, up 117 percent

Production of red wine varieties, which accounted for the largest share of all grapes crushed at 1.638 million tons, rose a modest 0.3 percent from 2003.

- – Cabernet Sauvignon at 360,155 tons, down 9.1 percent
- – Zinfandel at 321,899 tons, down 1.8 percent
- – Merlot at 292,243 tons, up 11.9 percent
- – Rubired at 158,436 tons, up 13.1 percent
- – Syrah at 101,246 tons, down 8.2 percent

Production of white wine varieties at 1.136 million tons, fell 7.6 percent from 2003.

- – Chardonnay at 524,732 tons, down 6.6 percent
- – French Colombard at 251,005, down 19 percent
- – Chenin Blanc at 84,566 tons, down 12.5 percent
- – Sauvignon Blanc at 78,806 tons, down 4.6 percent
- – Burger at 47,349 tons, up 12.5 percent.

According to the Wine Institute of California, total California wine shipments grew 6 percent in 2004. The value was about $15 billion at the retail level, and the volume reached 522 million gallons (1.976 billion liters).

Reports indicated that the U.S. wine consumer was trading up. According to a Frederikson report, premium wine $7 and over per 750 ml bottles increased 6.6 percent. Although accounting for only 32 percent of the volume, it accounts for 64 percent of winery revenues. Everyday wines, less than $7 per bottle, representing 68 percent in volume and only 36 percent of the revenues, were flat.

Washington, the 2nd largest wine grape producing state, accounted for more than 2 percent of total U.S. wine grape production. In 2004, there were more than 323 wineries, up from 125 in 2000.

In 2004, while total wine grape bearing area remained flat at 27,000 acres (10,927 hectares), total grape production fell over 20 percent to 267,000 tons as a result of weather related issues that reduced acreage yield. Total wine grape production fell 4 percent to 107,000 tons. Red wine varieties now account for about 52 percent of total, up from 47 percent in 2000. The top three red wine varieties were Merlot (40 percent), Cabernet Sauvignon (37 percent), and Syrah (12 percent). The three top white wine varieties were Chardonnay (51 percent), White Riesling (30 percent), and Gewurztraminer (5 percent).

While growers received an average of $925 per ton, up $5 from 2003, most growers received less for red varieties in 2004 compared with 2003 ($1,089 vs. $1,135), while growers of white varieties received an average of $38 more in 2004 ($776 vs. $738).

New York, the 3rd largest wine grape producing state, accounted for less than 2 percent of total U.S. wine grape production. In 2004, there were 203 wineries, up from 125 in 2000.

Total grape bearing area has been steady at 31,000 acres (12,545 hectares) for the past 3 years. But total grape production has declined 6 percent during those same three years as a result of lower grape yield (frost, mold, etc.) to 145,000 tons.

According to New York Wine and Grape Foundation, New York growers produced more than 30 different varieties of grapes for grape juice, wine and fresh fruit. Approximately 71 percent of New York's total grape production is used for grape juice, 27.6 percent for wine (40,000 tons), and 1.4 percent as fresh fruit. Two of every three grapes grown in New York are Concord grapes. Niagara grapes account for another 14 percent.

Oregon, the 4th largest wine producing state, is about half the size of New York in wine production. There were more than 228 wineries in 2004, up from 160 in 2004.

In 2004, while total increased 3.7 percent to 11,100 acres (4,492 hectares), total wine grape production and its value fell in 2004. Production fell 19 percent to 19,400 tons and its value declined 11 percent to $32.2 million. Yields were down due to a variety of reasons (e.g., freezing temperatures, powdery mildew, birds, yellow-jackets and deer). Harvested acreage increased 6.8 percent to 3,804 hectares, up from 3,561 in 2001. White wine varieties accounted for 35-37 percent of the total, and red wine varieties accounted for 63-67 percent of the total.

In 2004, total wine grape production fell 3.5 percent as yields fell 11 percent. As a result, total value of production fell 4 percent to $32.3 million. Red wines accounted for 63 percent of total wine production, up from 56 percent in 2002, and white wines accounted for 37 percent.

Production of red wine varieties, which accounted for the largest share of all grapes crushed at about 11,356 tons, fell 19 percent from last year.

- Pinot Noir at 9,370 tons, down 15 percent
- Merlot at 667 tons, down 38 percent
- Cabernet Sauvignon at 584 tons, down 40 percent
- Syrah at 489 tons, down 14 percent
- Cabernet Franc at 159 tons, down 21 percent

Production of white wine varieties at approximately 8,044 tons, fell 20 percent from 2003.

- Pinot Gris at 3,660 tons, down 21 percent
- Chardonnay at 1,550 tons, down 11 percent
- White Riesling at 1,110 tons, down 30 percent
- Gewurztraminer at 252 tons, down 43 percent
- Pinot Blanc at 375 tons, up 0.5 percent

New Jersey's wine industry dates back to 1767 when London's Royal Society of the Arts recognized two New Jersey vintners for their success in producing the first bottles of quality wine derived from colonial agriculture.

In New Jersey, today more than 2,000 acres are dedicated to wineries and vineyards and many of these acres are in farmland preservation, compared to 1,000 five years ago. In 2004, there are 33 wineries producing an estimated 1.542 million gallons (5.837 million liters) of wine. Five years ago, there were 21 wineries. The five top varieties were Cabernet Sauvignon, Cabernet Franc, Chambourcin for the reds; and Seyval Blanc, Chardonnay and Vidal Blanc for the whites. A larger portion of New Jersey wine production is wine made from fruits other than grapes than wines produced in Virginia.

Virginia's wine industry dates back to the early 1600. By 1609, records show that efforts to plant vines and make wine in the Jamestown Colony had begun in earnest. All through early American history, Virginia was the site of experimentation and commercial interest in viticulture and enology. Thomas Jefferson, George Washington and James Madison contributed to promoting the development of an American wine industry.

Today, Virginia has 97 registered wineries (up from 65 in 2000), over 300 independently-owned vineyards that produce over 782,700 gallons (2.96 million liters). According to State sources, the wine industry provides work to over 1,000 individuals and contributes over $95 million to the state's economy.

Pennsylvania's wine industry has grown substantially in the past few years. The 99 wineries in Pennsylvania (up from 52 in 2004) produced about 2.5 million liters of wine. Pennsylvania is a major grape producer. On about 12,000 acres (4,856 hectares), about 80,000 tons of grapes were produced in 2004, of which 6,500 tons was destined for wine production.

U.S. SUPREME COURT RULING ON INTERSTATE WINE SHIPMENTS

On May 16, 2005, the U.S. Supreme Court ruled that states that permit in-state vintners to sell directly to consumers may not deny that right to out-of-state producers. The ruling struck down New York and Michigan laws under which wineries from other states had to sell through state-licensed wholesalers while in-state wineries could sell its wines by phone or by Internet. Both Michigan and New York based its case that their laws were permitted under the 21st Amendment of the Constitution that gave control over sales of alcohol to the states.

By a 5 to 4 vote, ended this discrimination. While the Court affirmed that states has the broad power to regulate liquor, according to Justice Kennedy, "this power, however, does not allow states to ban, or severely limit, the direct shipments of out-of-state wines while simultaneously authorizing direct shipments by in-state producers." (For U.S. Supreme Court ruling, go to http://scotus.ap.org/scotus/03-1116p.zo.pdf)

GLOBAL WINE INDUSTRY TRENDS

World Wine Trade Group

For the most part, the wine industry relies heavily on exports to increase sales. As a result, they realize the importance of industry and governments' working together to find ways to reduce barriers to wine trade. In 1998, the first of several meetings was held among several non-European wine producing countries (New World Wine Producers, now called World Wine Trade Group) to discuss what is needed to reduce wine trade barriers. Members of this organization include Argentina, Australia, Canada, Chile, New Zealand, South Africa, and the United States. First on the agenda were winemaking practices (a.k.a. oenological practices). After only three years of negotiations, each country, except South Africa, signed a Mutual Acceptance Agreement (MAA) on Oenological Practices. By February 17, 2005, each of those countries that signed the Agreement has ratified the Agreement; and the Agreement is in force. The U.S. Department of Commerce is the electronic depositary for the Agreement (http://www.ita.doc.gov/td/ocg/wwtg.htm). For the past couple of years, WWTG has been negotiating a Wine Labeling Agreement. These negotiations should be concluded by 2006.

European vs. non-European wines

The international importance of non-European wine producers is growing at the expense of Western Europe. According to industry sources, while total vineyard acreage fell slightly from 1997 to 2001 in the European Union to about 10,495 acres while vineyard acreage for WWTG (New World Wine Producers)grew 19 percent to 2,631acres. Between 1997 and 2001, while total wine consumption in the EU grew less than 0.5 percent to about 133.5 billion liters, total wine consumption in the WWTG grew 4.5 percent to 47.6 billion liters.

Currently, world production of wine is estimated to be 28-30 billion liters. Total world exports of wines are estimated at around 7 billion liters. The European Union accounted for about 60 percent of the total world wine production and 70 percent of world exports. Wines from the World Wine Trade Group (WWTG) accounted for about one quarter of world production and about 15 percent of world exports.

GLOBAL WINE MARKET PROSPECTS

U.S. Imports

U.S. wine consumers still depend on imports to fully satisfy their demand for wines. Imports of table and sparkling wines account for about a quarter of U.S. domestic consumption. Between 2003 and 2004, the value of U.S. wine imports rose almost 5 percent to $3.4 billion (635 million liters).

In 2004, wine imports from the top five countries accounted for 90 percent of the total. Based on dollar value, France supplied 31 percent of total U.S. wine imports, followed by Italy with 28 percent, Australia with 22 percent, and Spain with 5 percent, and Chile with 4 percent.

Although the EU is the largest regional supplier of imports to the United States, its share has declined in recent years. In 2004, the EU accounted for about 72 percent of the value of all imports, down from 77 percent in 2000. On the other hand, imports from the World Wine Trade Group (WWTG) have garnered a larger share of the U.S. import market. In 2004, U.S. imports from WWTG increased about 17.6 percent reaching $1,022.7 million or 30 percent of imports, compared to 22 percent in 2000.

U.S. Exports

In 2004, total value of U.S. sparkling and non-sparkling wines exports rose 22 percent to $731.9 million compared with 2003, as quantities rose 16 percent to 377 million liters. The top five countries accounted for more than 78 percent of the value of U.S. wine exports. The United Kingdom was the largest export market with 41 percent followed by Canada (15 percent), the Netherlands (12 percent), Japan (7 percent), and Germany (4 percent). Regionally, the EU25 accounted for 66 percent of the value of U.S. exports, while WWTG share was 16 percent.

Promotion Funds for Wine

In fiscal year 2005, $141 million worth of funding by U.S. Department of Agriculture Foreign Agricultural Service's Market Access Program (MAP) is available to 70 U.S. trade organizations to promote U.S. agricultural products overseas. Of this, about $5.4 million is being allocated to U.S. wine industry. The MAP uses funds from USDA's Commodity Credit Corporation (CCC) to share the costs of overseas marketing and promotional activities with U.S. agricultural trade organizations, state regional groups and cooperatives. Activities conducted with MAP funding include market research, consumer promotions for retail products, and seminars to educate overseas customers. (See following website for further details http://www.fas.usda.gov/scriptsw/PressRelease/pressrel_dout.asp?PrNum=0083-05

INTERNATIONAL MARKET REPORTS

The following discussions of selected country markets are based on U.S. Department of Agriculture FAS Attaché Reports. For the complete report, using the reference code, check http://www.fas.usda.gov/scriptsw/attacherep/default.asp

Croatian Wine Market (HR5006)
For many years during Socialism, the Croatian wine consumer was surrounded almost exclusively with domestic wines. However, after Croatia's succession from former-Yugoslavia and the change to capitalism the wine market opened, and some foreign wines began to enter the country. Since Croatians take pride in their own wines, the market for foreign wines has not changed overnight. Instead, the market is still developing and will grow as the standard of living rises. This is especially true for the market segment of medium to higher quality wines and for consumers in Zagreb, the Croatian capital, where people have higher income and want to experiment with new wines and tastes. In addition, Croatia is a EU Accession candidate and is expected to begin negotiations soon (with possible accession 2007). EU Accession would result in a drop in tariffs for U.S. wines from the present 15 to 55 percent level to about 8 percent.

In 2003, annual average per capita wine consumption was 12.8 liters, which reflected a 16.7 percent increase compared to 2001.

Up until 2004, Croatia had surplus trade in wine. In 2004, Croatia imported $14.9 million and exported $12.3 million with 90 percent going to Germany, Bosnia-Herzegovina and Poland. Seventy percent of Croatia wine imports came from Macedonia, Slovenia and Bosnia-Herzegovina. In 2003, Croatia exported $209,000 worth of wines to the United States and imported only $59,000 from the United States.

Russian Federation Wine Market (RS5306)
Russia is the fastest growing retail food sales market in the world, according to Euromonitor data, with the potential to again double in size by 2008, just as it has since 2001. With an average 30 percent wine consumption increase per year, Russia is one of the most rapidly growing wine markets in the world. The number of regular consumers of wines has increased by an average 10 percent each year from 2000-2004 and by 2009 a 20 percent increase is expected in the amount of wine consumed per capita.

Currently, the Russian alcohol market is estimated at $16-17 billion, which represents 13 percent of the foodstuffs market. Out of over $1 billion in imported alcoholic drinks, wine accounts for nearly $450,000. Russia imports about 7 percent of its wines from the New World (World Wine Trade

Group). U.S. wines accounts for 3.3 percent in volume and 7.8 percent in value of the Russian New World wine market.

Turkish Wine Market (TU5004)
The market for wine is expanding in Turkey as more varieties and better quality wines become available. Changes in Turkish wine import and export regulations have also fueled the growth for imported wines. Imported wines can now be sold in retail outlets where previously sales were limited to luxury hotels and restaurants. High import duties and consumption taxes will pose a challenge to increased sales in the short run. However, Turkey is scheduled to begin discussions on EU membership in October 2005 and could adopt external tariffs, which would encourage sales.

Turkey is a secular republic and is not governed by the sharia law. Wine consumption is estimated at 69 million liters with a per capita consumption estimated at 1.0 liter. Wine consumption is Turkey has increased about 10 percent each year during the past five years, while beer consumption has grown 5 percent. Although per capita wine consumption is relatively low, it represents a 50 percent increase in consumption compared to 5 years ago. Cabernets Sauvignon, Merlot, Chardonnay and Pinot Grigio are among the popular wines demanded in turkey.

While Turkey only imports about 852,000 liters ($8 million)), it exports are five time that at 4 million liters. Italy, France and Chile were the suppliers of imported wines. The great majority of the Turkish wines exports were destined to EU countries such as Belgium and Germany targeting the Turkish population living in Europe.

Turkey is one of the first, if not the first, Muslim countries to form a wine association. The Istanbul Wine Friends Association was formed in 1991. It has ties with other international wine groups.

Swedish Wine Market (SW4019)

Table wine consumption continues to increase steadily in Sweden and has more than tripled since 1970, from 6.5 to 25 liters per capita in 2003. EU products still dominates, but New World wines are growing in popularity. Good market opportunities exist for quality wines as tastes and knowledge become more sophisticated. Over the past few years, U.S. wine exports to Sweden have been declining due to the strong dollar coupled with strong competition form other New World countries. However, the weakening of the dollar in 2003 and 2004 has fueled new interest in U.S. wines and U.S. exports are on the rise again.

Retail sales of wines and liquor in Sweden continue to be restricted to a government agency, Systembolaget. Systembolaget handles all over-the-counter sales of wines, spirits, and full strength beer through some 400 liquor stores throughout Sweden. The Swedish government managed to retain the retail monopoly despite its accession to the EU in 1995, but was required to relinquish its monopoly on importing, wholesaling, production and exporting of wines and spirits. With the dissolution of the import monopoly, more and more restaurants and caterers have started to import directly.

In 2003, bag-in-box and other soft packaging formats accounted for a remarkable 57 percent of Systembolaget's total wine sales. Bag-in-box is becoming popular for a couple of reasons-- consumers find them convenient for summer outings and it overcomes the reluctance attached to opening a bottle when all one wants is one or two glasses of wine.

Sales of red wine continue to increase, showing a 5 percent increase from 2002. Red wine sales are dominated by Spain, Italy, France and Chile, which together accounted for about 70 percent of sales volume. With a 7 percent decline in market share, Germany continues to lose ground, but remains the leading white wine supplier to Sweden followed by Italy, Spain, France and Hungary.

Sweden retains one of the most restrictive alcohol regimes in Europe, but in the past few years the rules have been challenged as Sweden is under pressure from EU harmonization requirements. As a result, Sweden has been forced to increase private alcohol import quotas, adjust its prohibition of alcoholic beverages and impose equal tax on wine and beer. The EU is pushing the Swedish Government to make additional tax reductions as the Commission maintains that the current tax scheme still disadvantages imported wines.

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